



Benefiting Idaho Public Schools and the Permanent Building Fund

**Fiscal Year 2013 Budget
Joint Finance–Appropriations Committee
February 14, 2012**

FY 2013 Idaho Legislative Budget Book, 5-89, Self-Governing Agencies-Idaho Lottery

Mission

The mission of the Idaho Lottery is to responsibly provide entertaining games with a high degree of integrity to maximize the dividend for Idaho Public Schools and the Permanent Building Fund.

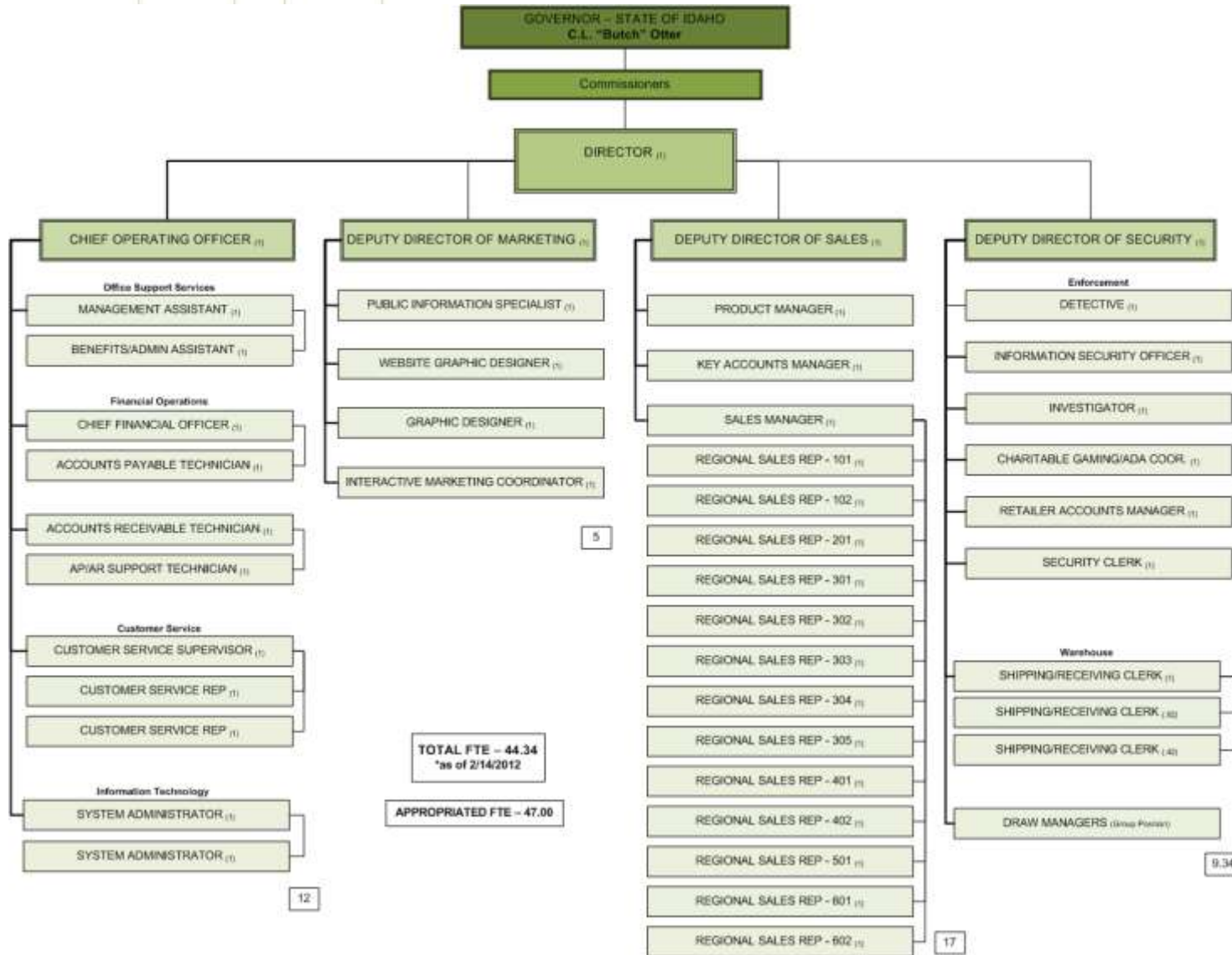


Vision

**To become the highest
performing jurisdiction in North
America**



Organizational Chart



- **Dividend Beneficiaries:**
 - Idaho Public Schools and the Permanent Building Fund. Each receives 50%.
 - Proceeds above \$34 million through 2014 goes to the Bond Levy Equalization Fund, per the formula in HB 275 (2009).
- In our first 22 years, the Idaho Lottery has returned over half of a billion dollars (\$510,800,000) in dividends to the citizens of Idaho.
- The Idaho Lottery provides oversight to protect the integrity of charitable gaming in Idaho.



Beyond the Dividend

FY11 Dividend – Schools, Buildings, Bond Levy
(Transferred in FY12) **\$37,000,000**

FY11 Interest Income to General Fund **\$111,140**

FY11 State Income Taxes **10,518,232**

Total **\$47,629,372**

FY11 Game Sales: \$147,205,000



Historical Spending Authorization

	Original Appropriation	Supplemental / Object Transfer	Expenditures	To Dividend
<u>FY11</u>				
Personnel Costs	\$2,619,500		\$2,371,246	\$248,254
Operating Costs	8,241,700		6,965,634	1,276,066
Capital Outlay	94,200		56,093	38,107
	\$10,955,400	\$0	\$9,392,973	\$1,562,427

<u>FY10</u>				
Personnel Costs	\$2,741,700		\$2,438,101	\$303,599
Operating Costs	8,265,800		7,302,898	962,902
Capital Outlay	100,900		97,127	3,773
	\$11,108,400	\$0	\$9,838,126	\$1,270,274

<u>FY09</u>				
Personnel Costs	\$2,842,500	(\$23,500)	\$2,473,821	\$345,179
Operating Costs	8,260,900		6,403,516	1,857,384
Capital Outlay	111,900		84,479	27,421
	\$11,215,300	(\$23,500)	\$8,961,816	\$2,229,984



Current State

FY2012 through January 28, 2012

Adjusted Game Portfolio Sales: +7.6%

Forecast FY2012 Final: \$155,500,000 (+5.6%)



**Powerball price changed to \$2
on 1/15/2012. FY2012 sales
through January 28, 2012 are
up 17%**



Office of Performance Evaluations 2012 Audit - Recommendations

LOTTERY OPERATIONS

Define Advertising/Marketing and Promotional Costs in Idaho Code

CHARITABLE GAMING

Implement Online Form for Organizations to Submit Annual Reports

Legislature - Record Retention Clarification

Legislature - Amend Code to Offer Multi-Year Licensing

Legislature - Remove Prize Maximums for Raffle

Legislature - Remove Holiday Christmas Tree Fundraisers



Office of Performance Evaluations

2012 Audit – Lottery Response

Recommendation 1.1 – Lottery Operations: Our past and current practice is to account for all costs associated with communicating our value proposition to players, retail partners, and stakeholders.

Traditional media placement and related production (TV, radio, billboards, print)	E-mail and text communication to players, website and related digital advertising
Advertising agency fees	Public relations
Consumer research	Annual reports
Promotions	Events
VIP Club	Sponsorships
Permanent signage	Promotional coupons
Temporary signage	Premiums
Retail point of sale materials	Ambassadors

Defining specific items in code would be problematic. The tools available to us in the future may not have been invented and brought to market yet. It may make more sense to define what isn't included when calculating the expenses towards the 3.5% limit: (a) employee wages and benefits; (b) travel for continuing education and conferences; and (c) general office overhead. FY2011 was 2.08% of sales.

Recommendations 2.1 to 2.5 – Charitable Gaming: We concur with all recommendations with minor adjustments.



Governor's Recommendation

Currently, prizes, retail commissions, and advertising are continuously appropriated due to their variable nature based on sales.

Historically, long-term contractual agreements with key vendors that provide gaming system services and ticket printing have not been included in the continuous appropriation because they were based on *fixed priced contracts* for services and equipment.

As the lottery has evolved, *performance-based compensation* on a percentage of sales formula is now an industry standard in many jurisdictions including Idaho.

Due to their variable nature, the Governor recommends moving vendor fees to the continuous appropriation with a corresponding reduction in the agency's Operating Expenses for FY2013.



Key Vendors - history

1990 – GTECH CONTRACT: Data line charges, all gaming equipment capitalized by Lottery, Lottery provided 3200 sq. ft. office space. Fixed price contract equivalent to 2.49% of sales

2005 – GTECH CONTRACT: Data line charges, all gaming equipment and Oracle back office capitalized by Lottery, \$16,000/week license fees, \$96/terminal satellite fee, Lottery provided 3200 sq. ft. office space. Fixed price with portions variable equivalent to 4.26% of sales

2011 – INTRALOT CONTRACT: All back office, rents their own space, and capitalizes gaming system and terminal equipment. Performance based percentage compensation for gaming system and instant ticket management earned at 1.98% of sales

1990 – DITTLER BROTHERS CONTRACT: scratch ticket printing vendor, fixed price per thousand tickets equivalent to 2.45% of sales

2011 – SCIENTIFIC GAMES INTL CONTRACT: scratch ticket printing vendor performance based percentage at 1.81% of sales



Mandated Limits

Limits set in Idaho Code apply to both continuously appropriated and regularly appropriated funds

67-7449 - 15% CAP ADMINISTRATIVE COSTS

1989 – 2011 Average = 9.07%

67-7414 - 6% CAP RETAILER COMMISSIONS

1989 – 2011 Average = 5.84%

67-7449 - 3.5% CAP ADVERTISING/PROMOTION

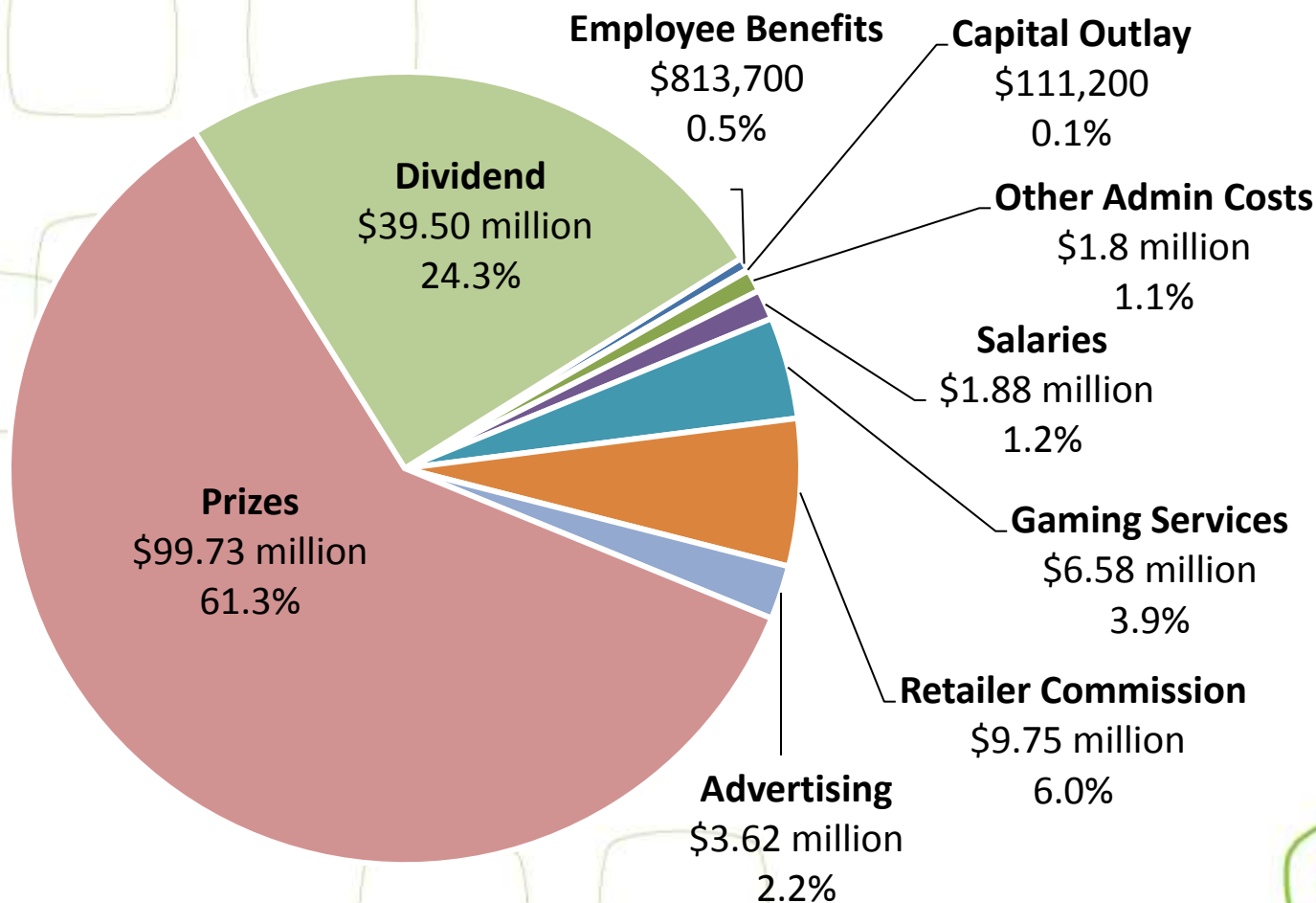
1989–2011 Average Costs = 2.69%

The Idaho Lottery Commission provides oversight and approval is required for our Business Plans.



Fiscal Year 2013

Sales Goal \$162,600,000 (+4.6%)

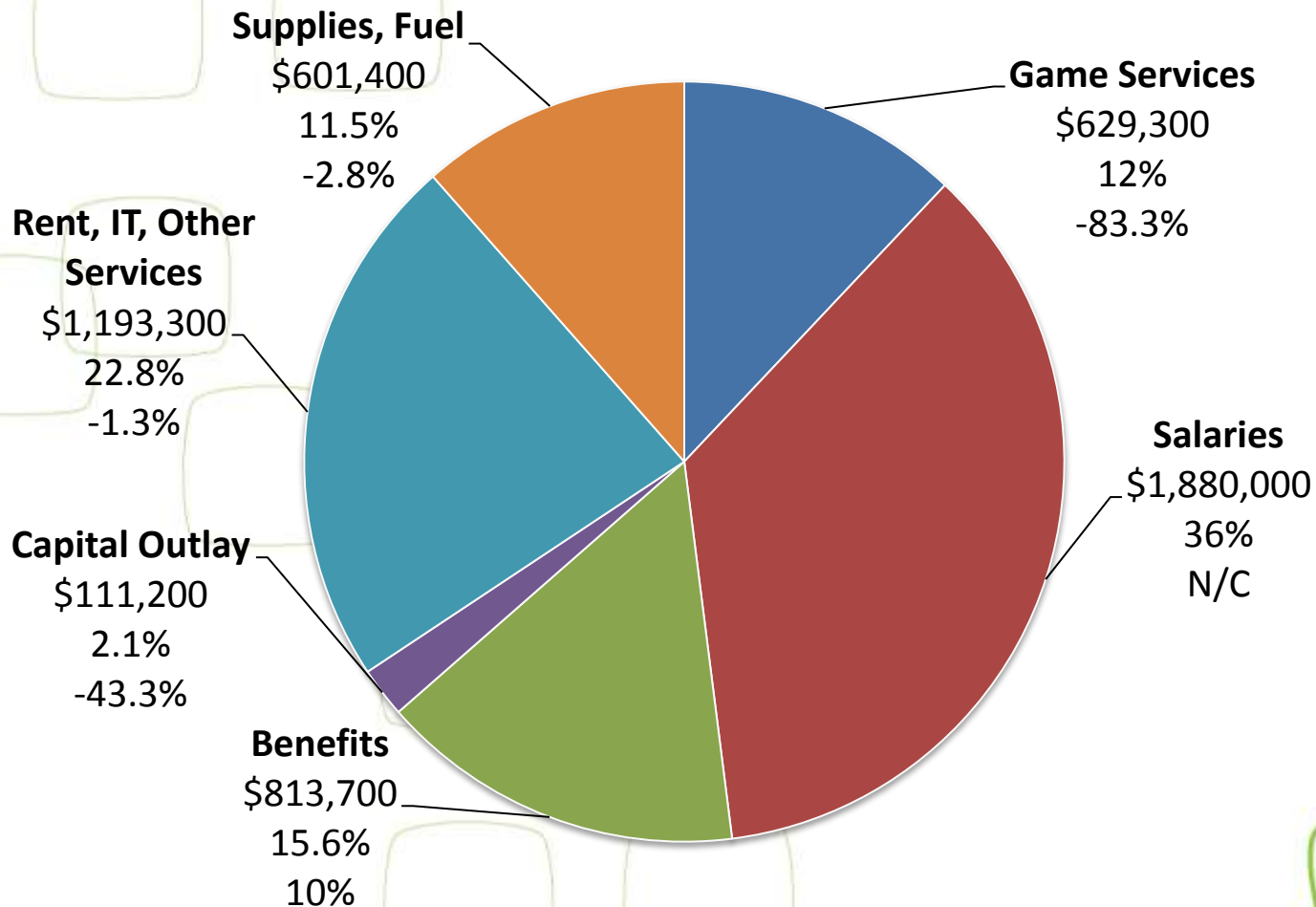


NOTE: Percentages may not equal 100% due to rounding



Fiscal Year 2013

Governor's Recommendation **\$5,228,900 (-51.5%)**





Thank You